

Royal Mail Transition ~ March 2011**DRAFT Post Trade Analysis****Executive Summary**

This report relates to the RMPP investment restructuring exercise carried out by State Street Global Markets (SSgM) in March 2011. Inalytics involvement began on 21st July when we were asked by RMPP and SSgM to conduct an independent review of the transition. Our comments on the transition prior to this date reflect our understanding of matters but we did not witness events first-hand.

Early in 2011 RMPP started a transition manager selection exercise for a significant restructuring of scheme assets. SSgM emerged as the value for money provider and were awarded the restructuring mandate. The nature of the task changed slightly from the initial specification; the equity component of legacy assets was removed and a requirement to remove interest rate exposure during the transition was introduced.

The transition took place in March and appeared to progress according to expectations. SSgM produced a post-trade analysis that showed the transition had been completed in line with the cost estimate that they had provided in advance of trading. However, RMPP had become aware of trading anomalies in some of the US trades and asked SSgM to investigate and explain. RMPP had agreed a fixed fee with SSgM but the suspect trades suggested that SSgM had received additional remuneration from fixed income trading.

SSgM responded that there had been an error in the instruction given to their US fixed income trading desk and proposed a compensation payment (\$954,406) to exactly offset the increased costs. SSgM confirmed that this error had been confined to US transactions but it was agreed that an independent review of the performance was appropriate; Inalytics was appointed to the role.

Inalytics met with RMPP and was asked to provide the following:

- an independent calculation of the performance of the transition (Section 2 of this report)
- a verification that the compensation offered was appropriate (Section 3 of this report)
- an estimate of the remuneration received by State Street (Section 4 of this report)

Given Inalytics findings and subsequent events, RMPP added an additional requirement:

- an overview of this transition, the scope of the Inalytics investigation, a summary of the findings and conclusions (Section 1 of this report)

Inalytics commenced the investigation in the expectation that SSgM would respond to their enquiries in a timely manner and that the exercise could be completed by the end of August. In practice this was not the case. SSgM did not provide the level of co-operation and transparency we were led to believe; they were slow to fulfil our data requests, presented obstacles, and tried to constrain the scope of our investigation.

We are also convinced that it was only due to our persistent and proactive probing that this matter was taken out of the hands of SSgM Transition Team and reviewed by their Compliance function. We now understand that the delay and absence of communication from SSgM in the latter phase of our investigation was probably due to their internal review taking precedence over our enquiries. On Tuesday 27th September, Stephen Smit (Executive Vice President SSgM) wrote to RMPP to confirm:

- the non US trades had also been adjusted (marked-up or marked-down)
- the compensation to RMPP needed to be increased from \$954,406 to \$3,025,944
- the matter had been reported to The Financial Services Authority.

It also became clear that the Global and the EMEA heads responsible for SSgM transition management would be leaving the company.

The Inalytics investigation also yielded the following findings:

- the transition performance was better than that originally reported by SSgM (Section 2)
- the compensation amount proposed by SSgM for fixed income dealing is correct (Section 3)
- SSgM would have received £2.6m in remuneration for this transition (not the £227,000 agreed fixed fee) had RMPP not questioned the outcome of this transition (Section 4).